

Muskegon Community College

REPORT ON FINANCIAL STATEMENTS

Year ended June 30, 2008

Muskegon Community College

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Management's Discussion and Analysis

The discussion and analysis of Muskegon Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2008. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

The financial statements have been prepared in accordance with generally accepted accounting principles outlined in the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001* issued by the State of Michigan.

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above-referred format, and notes to financial statements along with supplemental information.

Financial Highlights

In the fiscal year ended June 30, 2008, the College's expenses exceeded revenues and other support by \$198,439, creating a decrease in net assets.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole. The two statements report the College's net assets and changes in them. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Revenues and expenses are separated into categories of operating revenues and non-operating.

Muskegon Community College

Management's Discussion and Analysis

Following is a comparative analysis of the major components of the net assets of the College as of June 30, 2008 and 2007:

Net Assets As of June 30				
(in thousands)				
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 22,279	\$ 19,160	\$ 3,119	16.28%
Non-current assets				
Capital assets, net	28,117	27,490	627	2.28%
Bond issuance costs, net	99	235	(136)	-57.87%
Other	<u>6</u>	<u>8</u>	<u>(2)</u>	-25.00%
Total assets	50,501	46,893	3,608	7.69%
Liabilities				
Current liabilities	8,985	4,362	4,623	105.98%
Long-term liabilities				
Long-term debt obligations	15,604	16,506	(902)	-5.46%
Accrued sick leave	<u>2,141</u>	<u>2,056</u>	<u>85</u>	4.13%
Total liabilities	26,730	22,924	3,806	16.60%
Net Assets				
Invested in capital assets, net of related debt	14,159	13,858	301	2.17%
Restricted	365	308	57	18.51%
Unrestricted	<u>9,247</u>	<u>9,803</u>	<u>(556)</u>	-5.67%
Total net assets	<u>\$ 23,771</u>	<u>\$ 23,969</u>	<u>\$ (198)</u>	-0.83%

The large increase in current assets is due to an increase in accounts receivable of \$3,364,000. During fiscal year 2007-08, the College started registration in April for fall 2008 which created the receivable at June 30. Cash and cash equivalents decreased by \$341,000.

Capital assets increased by \$627,000 net of accumulated depreciation. The increase was in the area of construction in progress for the Student One Stop, nursing area and new administrative offices.

Current liabilities increased over \$4.6 million dollars. \$1.3 million of this increase was an increase in accounts payable of which \$966,000 was payables related to the construction of the Student One Stop. There was an increase of \$479,000 in accrued salaries, vacation and payroll related taxes. Deferred revenue increased by just over \$2.8 million dollars for the students that registered for fall 2008 classes prior to June 30.

Muskegon Community College

Management's Discussion and Analysis

Long-term liabilities decreased mostly by the bonded debt payments.

Although unrestricted net assets are not subject to externally imposed restrictions, virtually all of the College's unrestricted net assets are designated for purposes to fulfill its mission including designations for capital projects (plant fund - \$3,890,348); fund balance reserve (general fund - \$2,491,037); scholarships and grants (restricted fund \$181,482); and future health care cost increases (designated fund - \$410,000).

Summary Operating Results for the Year

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues				
Tuition and fees	\$ 7,610	\$ 7,917	\$ (307)	-3.88%
Grants and contracts	6,649	5,367	1,282	23.89%
Auxiliary services	742	798	(56)	-7.02%
Other	<u>872</u>	<u>867</u>	<u>5</u>	0.58%
Total operating revenues	<u>15,873</u>	<u>14,949</u>	<u>924</u>	6.18%
Total operating expenses	<u>34,395</u>	<u>32,915</u>	<u>1,480</u>	4.50%
Total operating loss	(18,522)	(17,966)	(556)	3.09%
Non-operating revenues (expenses)				
State appropriations	8,369	8,292	77	0.93%
Property taxes	9,697	9,277	420	4.53%
Gifts	274	155	119	76.77%
Investment income	633	846	(213)	-25.18%
Interest on capital asset - related debt	<u>(649)</u>	<u>-</u>	<u>(649)</u>	100.00%
Net non-operating revenues (expenses)	<u>18,324</u>	<u>18,570</u>	<u>(246)</u>	-1.32%
Change in net assets	(198)	604	(802)	-132.78%
Net assets - beginning of year	<u>23,969</u>	<u>23,365</u>	<u>604</u>	2.59%
Net assets - end of year	<u>\$ 23,771</u>	<u>\$ 23,969</u>	<u>\$ (198)</u>	-0.83%

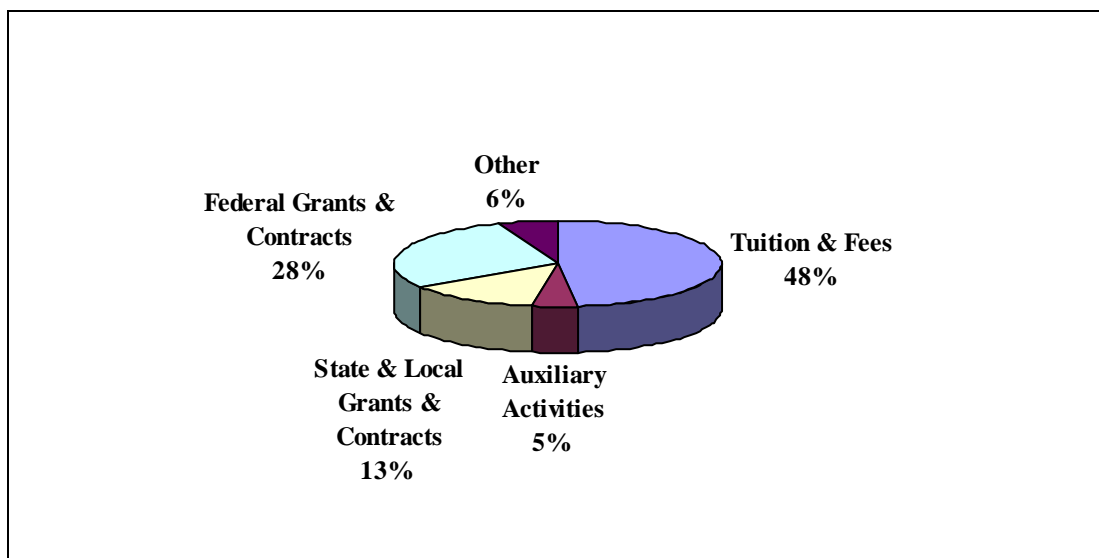
Muskegon Community College

Management's Discussion and Analysis

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

The following is a graphic illustration of operating revenues by source:



Most of our operating revenue comes from tuition and fees and federal and state grants. Tuition and fees actually increased by almost \$900,000. The College increased tuition rates per contact hour ranging from 6.35% for in-district to 9.64% for out-of-state residents. In addition, the College increased the technology fee from \$6 to \$7 per contact hour. However, the amount of scholarship allowances increased by \$1.2 million which offsets the amount of tuition and fees reported.

Federal and state grants increased by almost \$1.3 million dollars. Most of this increase was federal grants and aid for students.

Muskegon Community College

Management's Discussion and Analysis

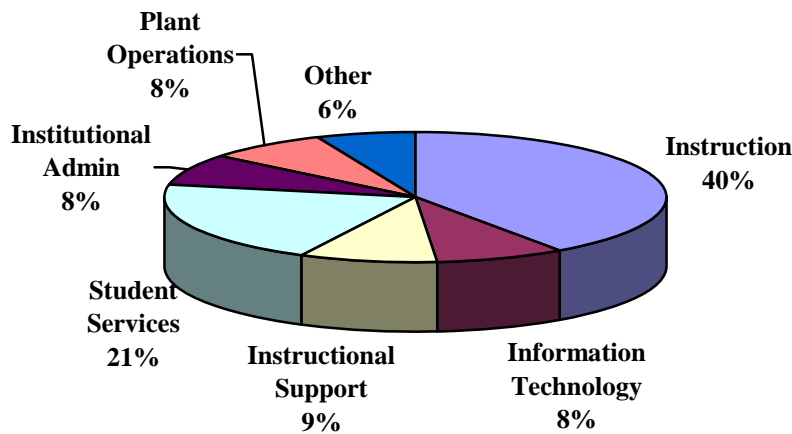
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. Operating expenses for the fiscal year ended June 30, 2008 and 2007 consist of the following:

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Instruction	\$ 13,880	\$ 12,540	\$ 1,340	10.69%
Information technology	2,830	2,433	397	16.32%
Public services	886	721	165	22.88%
Instructional support	3,073	3,094	(21)	-0.68%
Student services	7,103	6,651	452	6.80%
Institutional administration	2,666	2,760	(94)	-3.41%
Operation and maintenance of plant	2,613	2,659	(46)	-1.73%
Unallocated depreciation and amortization	1,095	996	99	9.94%
Interest on debt	-	661	(661)	-100.00%
Other expenses	249	400	(151)	-37.75%
Total	<u>\$ 34,395</u>	<u>\$ 32,915</u>	<u>\$ 1,480</u>	4.50%

The following is a graphic illustration of operating expenses by source:



Muskegon Community College

Management's Discussion and Analysis

Operating expenses increased \$1.48 million. The general fund increased by \$2,164,000. Of this increase, \$1.6 million was in the area of salaries and fringes. Just over \$400,000 was for professional services which includes the contract for our information technology services. Beginning with the fiscal year June 30, 2008, interest on debt is now recorded as a non-operating expense, thus a decrease in operating expenses.

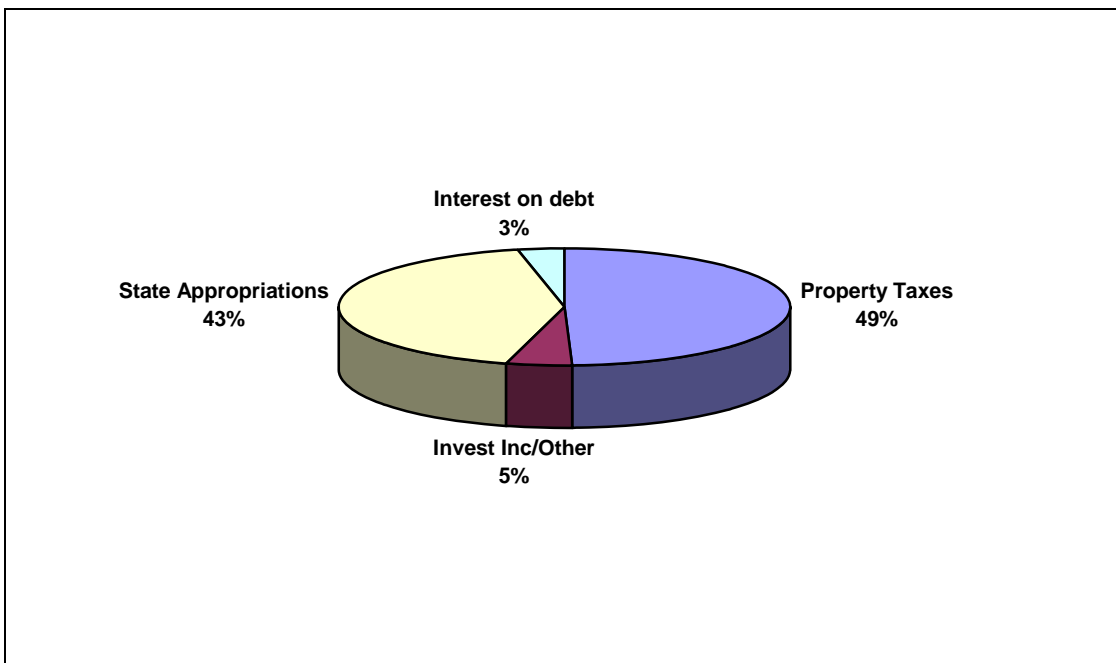
Non-operating Revenues (Expenses)

Non-operating revenues (expenses) are all revenue sources or expenses that are primarily non-exchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), grants and contracts that do not require any services to be performed and interest expense on bond issues.

Non operating revenues (expense) changes were the result of the following factors:

- State appropriations increased less than 1% or \$76,600.
- Increase in taxable value for property within the taxing district resulting in increased property tax revenues of \$419,575 or a 4.53% increase.
- Investment income decreased by \$213,000 or 25.2%, largely due to a decrease in interest rates and spending down some of the investments for the construction.
- Interest on capital asset – related debt was reported as an operating expense in prior years.

The following is a graphic illustration of non-operating revenues (expenses) by source:



Muskegon Community College

Management's Discussion and Analysis

Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Examples would be state capital appropriations, additions to permanent endowments, and transfers from related entities. The College had no "other" revenue during the year.

Statement of Cash Flows

The primary purpose of this statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also may help users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

Overall the College's year end cash position decreased by \$340,520. The most significant decrease was in maturities of investments.

Cash Flows for the Year Ended June 30

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percent Change</u>
Cash provided by (used for)				
Operating activities	\$ (17,132)	\$ (17,925)	\$ 793	-4.42%
Noncapital financing activities	18,318	17,700	618	3.49%
Capital and related financing activities	(2,166)	(1,635)	(531)	32.48%
Investing activities	<u>640</u>	<u>2,937</u>	<u>(2,297)</u>	-78.21%
Net change in cash	(340)	1,077	(1,417)	-131.57%
Cash - beginning of year	<u>1,602</u>	<u>525</u>	<u>1,077</u>	205.14%
Cash - ending of year	\$ <u><u>1,262</u></u>	\$ <u><u>1,602</u></u>	\$ <u><u>(340)</u></u>	-21.22%

Muskegon Community College

Management's Discussion and Analysis

Capital Assets

At June 30, 2008, the College had \$39.9 million invested in capital assets, with accumulated depreciation of \$11.8 million. Depreciation charges totaled \$1,088,969 for the current fiscal year. Details of these assets at June 30 are shown in the following table.

Fixed Assets for the Year Ended June 30

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Land	\$ 462	\$ 462	\$ -
Construction in progress	1,388	2	1,386
Land improvements	784	847	(63)
Buildings and improvements	23,857	24,307	(450)
Equipment	<u>1,626</u>	<u>1,872</u>	<u>(246)</u>
Total	\$ <u>28,117</u>	\$ <u>27,490</u>	\$ <u>627</u>

The major change in fixed assets was the construction in progress for the new Student One Stop. Buildings and improvements and equipment decreased because the depreciation charges were greater than the additions. See Note C in the notes to the financial statements for more detail.

In the next year, the College has budgeted for equipment and building and improvements of approximately \$900,000, primarily for instructional equipment and minor facility renovations. Only those items with a cost of more than \$5,000 will be capitalized.

Muskegon Community College

Management's Discussion and Analysis

Debt

The College's long-term debt consists of \$17,059 in notes payable, related to equipment installment obligations, and \$16,367,562 in General Obligation – Limited Tax Bonds, issued in 2003 and 2005, for a total of \$16,384,621. This compares to \$17,140,583 as of June 30, 2007. The College's bond debt rating is AAA.

The 2003 bonds were issued for the purpose of constructing the Career Tech Center (CTC) and a new library addition to the College's main campus. The CTC is operated by the Muskegon Area Intermediate School District (MAISD), and the MAISD is obligated to make rental payments to the College which approximate debt service requirements on the portion of bonds used to construct that facility.

The 2005 bonds were issued for the purpose of completing the new library addition and renovating/remodeling vacated space. More detailed information about the College's long-term liabilities is presented in Note F of the notes to financial statements.

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources, the current state funding for the College is projected to increase only slightly for fiscal year 2009-10. Growth in property taxes is also expected to increase slightly.

Overall, the College's current financial and capital plans along with additional operating cost savings indicate that the College is positioned to maintain its present level of services.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 1, 2008

Board of Trustees
Muskegon Community College
Muskegon, Michigan

We have audited the accompanying financial statements of Muskegon Community College (College), as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muskegon Community College, as of June 30, 2008, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated December 1, 2008, on our consideration of Muskegon Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

BRICKLEY DELONG

Board of Trustees
December 1, 2008
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The management's discussion and analysis on pages i - ix is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskegon Community College's basic financial statements. The consolidating fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The consolidating fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Muskegon Community College
STATEMENT OF NET ASSETS
Year ended June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,261,614
Investments	14,411,461
Property taxes receivable	101,025
State appropriation receivable	1,521,636
Accounts receivable	4,589,782
Prepaid expenses and other assets	<u>393,832</u>

TOTAL CURRENT ASSETS	22,279,350
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STUDENT LOANS RECEIVABLE	6,569
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BOND ISSUANCE COSTS, net	98,655
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PROPERTY AND EQUIPMENT, net	<u>28,116,708</u>
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TOTAL ASSETS	50,501,282
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of debt obligations	781,000
Accounts payable	1,735,237
Accrued interest payable	60,216
Accrued payroll and other compensation	3,475,136
Deposits	52,564
Deferred revenue	<u>2,881,162</u>

TOTAL CURRENT LIABILITIES	8,985,315
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LONG-TERM DEBT OBLIGATIONS	15,603,621
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ACCRUED SICK LEAVE	<u>2,141,427</u>
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TOTAL LIABILITIES	<u>26,730,363</u>
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NET ASSETS

Invested in capital assets, net of related debt	14,158,610
Restricted	
Expendable	
Scholarships	159,591
Instructional department uses	184,702
Loans	21,089
Unrestricted	<u>9,246,927</u>

TOTAL NET ASSETS	<u><u>\$ 23,770,919</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon Community College
**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**
Year ended June 30, 2008

REVENUES

Operating revenues

Tuition and fees (net of scholarship allowances of \$3,144,972)	\$ 7,610,178
Federal grants and contracts	4,499,594
State and local grants and contracts	2,095,388
Nongovernmental grants	53,871
Auxiliary activities	741,930
Miscellaneous	<u>871,691</u>
Total operating revenue	15,872,652

EXPENSES

Operating expenses

Instruction	13,880,269
Information technology	2,830,077
Public services	886,080
Instructional support	3,072,578
Student services	7,102,749
Institutional administration	2,665,872
Operation and maintenance of plant	2,612,878
Depreciation and amortization	1,095,091
Other expenses	<u>249,593</u>
Total operating expenses	<u>34,395,187</u>

Operating loss (18,522,535)

NONOPERATING REVENUES (EXPENSES)

State appropriations	8,369,000
Property tax levy	9,696,789
Gifts	274,465
Investment income	632,901
Interest on capital asset - related debt	<u>(649,059)</u>
Total nonoperating revenues (expenses)	<u>18,324,096</u>

Change in net assets (198,439)

Net assets at July 1, 2007	<u>23,969,358</u>
Net assets at June 30, 2008	<u>\$ 23,770,919</u>

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 7,110,383
Grants and contracts	6,648,853
Payments to suppliers	(10,527,083)
Payment to employees	(21,989,236)
Loans collected from (issued to) students	1,883
Auxiliary enterprise charges	741,930
Other	<u>880,696</u>
Net cash used for operating activities	(17,132,574)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Local property taxes	9,714,089
Gifts and contributions for other than capital purposes	274,465
State appropriations	<u>8,329,879</u>
Net cash provided by noncapital financing activities	18,318,433

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(759,163)
Principal paid on capital debt	(763,556)
Interest paid on capital debt	<u>(643,628)</u>
Net cash used for capital and related financing activities	(2,166,347)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	7,067
Interest on investments	<u>632,901</u>
Net cash provided by investing activities	<u>639,968</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS (340,520)

CASH AND CASH EQUIVALENTS at July 1, 2007 1,602,134

CASH AND CASH EQUIVALENTS at June 30, 2008 \$ 1,261,614

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS—CONTINUED
Year ended June 30, 2008

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES

Operating loss	\$ (18,522,535)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization expense	1,095,091
(Increases) decreases in assets	
Accounts receivables (net)	(3,364,104)
Prepaid expenses and other assets	(80,571)
Student loans receivable	1,883
Increases (decreases) in liabilities	
Accounts payable	299,759
Accrued payroll and other compensation	564,589
Deposits	46,082
Deferred revenue	<u>2,827,232</u>
Net cash used for operating activities	<u><u>\$ (17,132,574)</u></u>

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Muskegon Community College (College) is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles outlined in *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*.

Muskegon Community College, established in 1926, is located in Muskegon, Michigan. The College provides educational services to residents of Muskegon County. A seven-member Board, which is elected by residents of Muskegon County, governs the College.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has no component units.

Significant accounting policies followed by the College are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis – The financial statements of the College have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents – Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Investments – Investments are recorded at fair value, based on quoted market prices.

Property and Equipment – Property and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Capitalized property and equipment are assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Depreciation is provided on the straight-line basis over the following useful lives:

Land improvements	20 years
Buildings and improvements	15-50 years
Equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Accrued Sick Leave – Accrued sick leave represents the accumulated liability to be paid under the College's current sick pay policy. Under the College's policy, employees earn sick time based on time of service and/or contract with the College. Employment contracts generally provide for the payment of one-half of unused sick leave to a maximum per individual at retirement, or for clerical and custodial staff, at termination.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Deferred Revenues – Revenues received prior to year end that are related to the next fiscal period are recorded as deferred revenues. These consist primarily of grants and entitlements received before the eligibility requirements are met and tuition payments received for the subsequent fall semester.

Gifts and Pledges – Gifts are recorded when received and pledges are recorded when it is determined that the gift is probable of collection at its net present value.

Internal Service Activities – Both revenue and expenses related to internal service activities including office equipment, maintenance, and copying have been eliminated.

Property Taxes – The College's property tax is levied and becomes a lien on December 1, based on the assessed value listed as of the prior December 31. Local governmental units within the College's jurisdiction collect and remit taxes until March 1, at which time the uncollected real property taxes are turned over to the County of Muskegon for collection. The County advances the College all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the College and are recorded as revenue when received.

The 2007 state taxable value for real/personal property of the College totaled approximately \$4,314,000,000. The ad valorem taxes levied consisted of 2.2037 mills for operating purposes.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the College had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Commercial paper	\$ 995,518	102	A1/P1	7.2 %
Commercial paper	5,992,779	73	A1+/P1	43.5
U.S. agency obligations	3,993,995	90	AAA	28.9
Money market mutual fund	2,818,018	55	AAA	20.4
Total fair value	<u>\$ 13,800,310</u>			<u>100 %</u>
Portfolio weighted average maturity		<u>66</u>		

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—DEPOSITS AND INVESTMENTS—Continued

Interest rate risk. The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The College has no investment policy that would further limit its investment choices.

Concentration of credit risk. The College does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the College investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the College's investments are in obligations issued by the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments are 21.71 percent and 7.23 percent, respectively, of the College's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2008, \$1,359,737 of the College's bank balance of \$2,162,096 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, in the College's name.

Custodial credit risk - investments. The College does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The College is not authorized to invest in investments which have this type of risk.

NOTE C—PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 462,234	\$ -	\$ -	\$ 462,234
Construction in progress	2,286	1,385,528	-	1,387,814
Total capital assets, not being depreciated	464,520	1,385,528	-	1,850,048
Capital assets, being depreciated:				
Land improvements	1,785,400	-	-	1,785,400
Buildings and improvements	32,144,189	201,663	-	32,345,852
Equipment	3,936,252	137,779	156,451	3,917,580
Total capital assets, being depreciated	37,865,841	339,442	156,451	38,048,832

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—PROPERTY AND EQUIPMENT—Continued

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Less accumulated depreciation:				
Land improvements	\$ 938,659	\$ 62,535	\$ -	\$ 1,001,194
Buildings and improvements	7,837,572	651,355	-	8,488,927
Equipment	2,064,418	375,079	147,446	2,292,051
Total accumulated depreciation	<u>10,840,649</u>	<u>1,088,969</u>	<u>147,446</u>	<u>11,782,172</u>
Total capital assets, being depreciated, net	<u>27,025,192</u>	<u>(749,527)</u>	<u>9,005</u>	<u>26,266,660</u>
Capital assets, net	<u>\$ 27,489,712</u>	<u>\$ 636,001</u>	<u>\$ 9,005</u>	<u>\$ 28,116,708</u>

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE D—RETIREMENT PLANS

Employee Retirement System – Defined Benefit Plan

Plan Description – The College participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing, MI 48909
1-800-381-5111

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—RETIREMENT PLANS—Continued

Employee Retirement System – Defined Benefit Plan—Continued
Funding Policy—Continued

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74 percent for the months July through September and 16.72 percent for the remainder of the fiscal year. The College contributions to MPSERS for the year ended June 30, 2008, 2007, and 2006 were approximately \$2,010,000, \$2,039,000, and \$1,872,000, respectively and were equal to the required contribution for those years. Employee contributions to the MIP were approximately \$302,500.

Defined Contribution Plan

Effective, July 1, 1999, the Muskegon Community College Board of Trustees approved an Optional Retirement Plan (ORP) to be administered by TIAA-CREF. The ORP is available for all full-time faculty and full-time salaried administrative staff. Upon eligibility to participate in the ORP, employees have 90 days in which to elect participation in either the ORP or the MPSERS plan.

The ORP is a non-voluntary defined-contribution plan in which the College contributes 14.0 percent and the employee contributes 4.0 percent of the participating employee's includible compensation. Participants are immediately 100 percent vested in all ORP contributions. Participating employees elect their own allocation of contributions among the available investment vehicles offered by TIAA-CREF. ORP retirement benefits are based on the accumulation of contributions and the related investment income for each participant. Distributions of retirement benefits are available under the ORP when participants attain age 55. The College's contributions to the ORP were approximately \$377,000 and employee contributions were approximately \$108,000.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 122,442	\$ -	\$ -	\$ 122,442
Less accumulated amortization	17,665	6,122	-	23,787
Bond issuance costs, net	<u>\$ 104,777</u>	<u>\$ (6,122)</u>	<u>\$ -</u>	<u>\$ 98,655</u>

Amortization

Amortization expense has been charged as unallocated amortization.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE F— LONG-TERM OBLIGATIONS

Summary of Long-Term Obligations

The following is a summary of long-term obligations activity for the College for the year ended June 30, 2008.

	Balance July 1, 2007		Additions		Reductions		Balance June 30, 2008		Due within one year
Governmental activities:									
General obligation bonds	\$ 17,104,968	\$	-	\$	737,406	\$	16,367,562	\$	770,000
Other obligations	35,615		-		18,556		17,059		11,000
	<u>\$ 17,140,583</u>	\$	<u>-</u>	\$	<u>755,962</u>	\$	<u>16,384,621</u>	\$	<u>781,000</u>

General obligation bonds:

\$9,985,000 Community College Building and Site

Bonds of 2003; payable in annual installments
of \$400,000 to \$780,000 through May
2023; plus interest from 2.5% to 4.4%

\$ 8,570,000

Less bond discount

(59,602)

\$9,000,000 College Facilities Bond of 2005;

payable in annual installments of
\$370,000 to \$580,000 through May
2025; plus interest from 3.5% to 4.125%

7,920,000

Less bond discount

(62,836)

Other obligations:

Capital lease, payable in monthly installments
of \$1,028 through October 2009; including
interest at 8.67%

4,039

Capital lease, payable in monthly installments
of \$722 through June 2010; including interest
at 9.5%

13,020

\$ 16,384,621

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE F—LONG-TERM DEBT OBLIGATIONS—Continued

Summary of Long-Term Obligations—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 781,000	\$ 624,000	\$ 1,405,000
2010	806,000	601,000	1,407,000
2011	830,000	574,000	1,404,000
2012	860,000	546,000	1,406,000
2013	895,000	516,000	1,411,000
2014-2018	5,035,000	2,079,000	7,114,000
2019-2023	6,155,000	1,024,000	7,179,000
2024-2026	1,145,059	71,797	1,216,856
	<u>\$ 16,507,059</u>	<u>\$ 6,035,797</u>	<u>\$ 22,542,856</u>

\$8,070,000 of the Community College Building Site Bonds of 2003 were issued to construct, furnish, and equip a Career Technical Center that is being leased to the Muskegon Area Intermediate School District (MAISD). Lease payments from the MAISD are approximately equal to the annual debt service requirements of this portion of the bonds.

NOTE G—RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the College carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated.

The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to general and auto liability, motor vehicle physical damage, and property. Member contributions, which provide for losses incurred, reinsurance premiums, and risk management fees are allocated according to the actual costs incurred for each member. A member stop-loss fund provides for losses exceeding \$18,000 per occurrence or \$54,000 in the aggregate, on a year-to-year basis from the fund. Reinsurance agreements provide for loss coverage in excess of the amounts to be retained by the members. The Authority provides for withdrawal from membership at the end of any anniversary year.

NOTE H—CONTINGENCIES

The College participates in federal student financial aid grant and loan programs which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of grants or expenditures which may be disallowed by the granting agencies cannot be determined at this time although the College expects such amounts, if any, to be immaterial.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—SELF-INSURANCE

The College has a self-insured medical reimbursement plan for substantially all employees. In general, the College is liable for benefits up to \$60,000 per covered individual per year, with an approximate aggregate liability of \$2,015,202 per year. Benefit payments in excess of \$60,000 per covered individual or \$2,015,202 in aggregate are payable by an insurance company subject to a \$1,000,000 lifetime maximum per employee and aggregate liability. Benefits in excess of \$1,000,000 in aggregate or \$1,000,000 per employee, if any, would be the liability of the covered individual.

The College utilizes a third party administrator to administer benefits payable under this plan. Reimbursement payments to the third party administrator, which have been charged to expense, approximated \$3,009,000 for the year ended June 30, 2008.

NOTE J—MUSKEGON COMMUNITY COLLEGE FOUNDATION

The Muskegon Community College Foundation (Foundation) was established in 1971 for the purpose of:

- a. Securing gifts of loans of property, works of art, historical papers, etc.
- b. Fundraising by means of loans, gifts, grants and bequests for a broad variety of purposes, including instruction and research, establishment of endowments, scholarships, fellowships, professorships, academic chairs, and cultural events and for buildings, equipment, and other facilities of all kinds.
- c. To act in the capacity of a fiduciary or trustee in carrying out these purposes and objectives.

The College is the sole beneficiary of any donations to, or funds raised by, the Foundation. At June 30, 2008, the stated value of the net assets of the Foundation approximated \$1,324,000. These assets are not included in the financial statements of the College because the College does not appoint a voting majority of the Foundation's Board of Directors, is not fiscally dependent on the Foundation, is not involved in the management of the Foundation and the Foundation can direct resources at its discretion. Contributions to and payments on behalf of the College by the Foundation approximated \$111,000 in the fiscal year ending June 30, 2008.

The College provides personnel support, supplies and equipment to the Foundation. The management of the College should be contacted for copies of the Foundation's financial statements.

SUPPLEMENTAL INFORMATION

Muskegon Community College
CONSOLIDATING BALANCE SHEET
June 30, 2008

	Combined total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund	Agency Fund
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	\$ 1,261,614	\$ 1,141,559	\$ -	\$ -	\$ -	\$ 2,008	\$ -	\$ -	\$ 118,047	\$ -
Investments	14,411,461	11,668,893	-	-	-	-	-	-	2,742,568	-
Property taxes receivable	101,025	101,025	-	-	-	-	-	-	-	-
State appropriation receivable	1,521,636	1,521,636	-	-	-	-	-	-	-	-
Accounts receivable	4,589,782	4,588,718	-	-	-	-	-	-	1,064	-
Prepaid expenses and other assets	393,832	393,832	-	-	-	-	-	-	-	-
Due from (due to) other funds	-	(7,785,563)	410,000	2,401,352	525,775	13,312	-	-	4,382,560	52,564
TOTAL CURRENT ASSETS	22,279,350	11,630,100	410,000	2,401,352	525,775	15,320	-	-	7,244,239	52,564
STUDENT LOANS RECEIVABLE	6,569	-	-	-	-	6,569	-	-	-	-
BOND ISSUANCE COSTS, NET OF AMORTIZATION	98,655	-	-	-	-	-	-	-	98,655	-
PROPERTY AND EQUIPMENT										
Land and improvements	2,247,634	-	-	-	-	-	-	-	2,247,634	-
Buildings and improvements	32,345,852	-	-	-	-	-	-	-	32,345,852	-
Equipment	3,917,580	-	-	-	-	-	-	-	3,917,580	-
Construction in progress	1,387,814	-	-	-	-	-	-	-	1,387,814	-
Allowance for depreciation	(11,782,172)	-	-	-	-	-	-	-	(11,782,172)	-
TOTAL PROPERTY AND EQUIPMENT	28,116,708	-	-	-	-	-	-	-	28,116,708	-
TOTAL ASSETS	50,501,282	11,630,100	410,000	2,401,352	525,775	21,889	-	-	35,459,602	52,564

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
June 30, 2008

	Combined total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund	Agency Fund
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Current portion of debt obligations	\$ 781,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 781,000	\$ -
Accounts payable	1,735,237	641,338	-	127,292	-	800	-	-	965,807	-
Accrued interest payable	60,216	-	-	-	-	-	-	-	60,216	-
Accrued payrolls and other compensation	3,475,136	3,475,136	-	-	-	-	-	-	-	-
Deposits	52,564	-	-	-	-	-	-	-	-	52,564
Deferred revenue	2,881,162	2,881,162	-	-	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	8,985,315	6,997,636	-	127,292	-	800	-	-	1,807,023	52,564
LONG-TERM DEBT OBLIGATIONS	15,603,621	-	-	-	-	-	-	-	15,603,621	-
ACCRUED SICK LEAVE	2,141,427	2,141,427	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	26,730,363	9,139,063	-	127,292	-	800	-	-	17,410,644	52,564
NET ASSETS										
Invested in capital assets, net or related debt	14,158,610	-	-	-	-	-	-	-	14,158,610	-
Restricted										
Expendable										-
Scholarships	159,591	-	-	-	159,591	-	-	-	-	-
Instructional department uses	184,702	-	-	-	184,702	-	-	-	-	-
Loans	21,089	-	-	-	-	21,089	-	-	-	-
Unrestricted	9,246,927	2,491,037	410,000	2,274,060	181,482	-	-	-	3,890,348	-
TOTAL NET ASSETS	\$ 23,770,919	\$ 2,491,037	\$ 410,000	\$ 2,274,060	\$ 525,775	\$ 21,089	\$ -	\$ -	\$ 18,048,958	\$ -

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
For the year ended June 30, 2008

	Combined total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund
REVENUES										
Operating revenues										
Tuition and fees (net of scholarship allowances of \$3,144,972)	\$ 7,610,178	\$ (3,144,972)	\$ 10,755,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	4,499,594	-	-	-	-	4,499,594	-	-	-	-
State and local grants and contracts	2,095,388	-	-	-	-	2,095,388	-	-	-	-
Nongovernmental grants	53,871	-	-	-	-	53,871	-	-	-	-
Auxiliary activities	741,930	-	-	-	741,930	-	-	-	-	-
Miscellaneous	871,691	-	252,506	-	-	-	40	569,384	-	49,761
Total operating revenue	15,872,652	(3,144,972)	11,007,656	-	741,930	6,648,853	40	569,384	-	49,761
EXPENSES										
Operating expenses										
Instruction	13,880,269	-	13,264,403	-	766	615,100	-	-	-	-
Information technology	2,830,077	-	2,830,077	-	-	-	-	-	-	-
Public services	886,080	-	857,818	-	25,988	2,274	-	-	-	-
Instructional support	3,072,578	-	3,054,178	-	-	18,400	-	-	-	-
Student services	7,102,749	(3,144,972)	3,972,582	-	298,658	5,976,481	-	-	-	-
Institutional administration	2,665,872	-	2,662,726	-	3,146	-	-	-	-	-
Operation and maintenance of plant	2,612,878	-	2,120,528	-	492,350	-	-	-	-	-
Depreciation and amortization	1,095,091	-	-	-	-	-	-	-	-	1,095,091
Other expenses	249,593	-	-	-	-	-	351	225	225	248,792
Total operating expenses	34,395,187	(3,144,972)	28,762,312	-	820,908	6,612,255	351	225	225	1,343,883
OPERATING INCOME (LOSS)	(18,522,535)	-	(17,754,656)	-	(78,978)	36,598	(311)	569,159	(225)	(1,294,122)

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS—CONTINUED
For the year ended June 30, 2008

	Combined total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	2005 Debt Service Fund	Plant Fund
NONOPERATING REVENUES (EXPENSES)										
State appropriations	\$ 8,369,000	\$ -	\$ 8,369,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property tax levy	9,696,789	-	9,696,789	-	-	-	-	-	-	-
Gifts	274,465	-	1,000	-	-	-	-	-	-	273,465
Investment income	632,901	-	499,704	-	-	-	433	-	-	132,764
Interest on capital asset - related debt	(649,059)	-	-	-	-	-	-	(333,220)	(310,408)	(5,431)
Total nonoperating revenues (expenses)	18,324,096	-	18,566,493	-	-	-	433	(333,220)	(310,408)	400,798
Change in net assets	(198,439)	-	811,837	-	(78,978)	36,598	122	235,939	(310,633)	(893,324)
Transfers in (out)	-	-	(1,769,539)	-	61,789	52,014	-	(235,939)	310,633	1,581,042
Net change in net assets	(198,439)	-	(957,702)	-	(17,189)	88,612	122	-	-	687,718
Net assets at July 1, 2007	23,969,358	-	3,448,739	410,000	2,291,249	437,163	20,967	-	-	17,361,240
Net assets at June 30, 2008	<u>\$ 23,770,919</u>	<u>\$ -</u>	<u>\$ 2,491,037</u>	<u>\$ 410,000</u>	<u>\$ 2,274,060</u>	<u>\$ 525,775</u>	<u>\$ 21,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,048,958</u>

Notes:

Capital expenditures are eliminated from operating expenditures in the current funds.

Student aid / scholarships are eliminated from expenditures to prevent double accounting of revenues.

The revenue is already recorded in federal and state grant revenues.

Internal service charges, such as duplicating, are eliminated.

Muskegon Community College
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 1, 2008

Board of Trustees
Muskegon Community College
Muskegon, Michigan

We have audited the financial statements of Muskegon Community College as of and for the year ended June 30, 2008 and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muskegon Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Muskegon Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Muskegon Community College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, as Finding 1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Board of Trustees
December 1, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Muskegon Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Muskegon Community College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Muskegon Community College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 1, 2008

Board of Trustees
Muskegon Community College
Muskegon, Michigan

Compliance

We have audited the compliance of Muskegon Community College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Muskegon Community College's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muskegon Community College's management. Our responsibility is to express an opinion on Muskegon Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muskegon Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muskegon Community College's compliance with those requirements.

In our opinion, Muskegon Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described as Findings 2 and 3 in the accompanying Schedule of Findings and Responses.

Board of Trustees
December 1, 2008
Page 2

Internal Control Over Compliance

The management of Muskegon Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muskegon Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Muskegon Community College's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Muskegon Community College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Muskegon Community College's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Muskegon Community College as of and for the year ended June 30, 2008 and have issued our report thereon dated December 1, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

Muskegon Community College
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's I.D. number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
						Prior year	Current year	Total	
U.S. Department of Transportation									
Direct Programs									
Commercial Motor Vehicle Operators Training Grant	20.235	DT-07-26-09-G-0000	\$ 80,530	\$ -	\$ 27,061	\$ -	\$ 66,042	\$ 66,042	\$ 38,981
National Science Foundation									
Direct Programs									
Muskegon Scholars	47.076	DUE-0726745	473,310	-	9,716	-	25,268	25,268	15,552
U.S. Department of Education									
Direct Programs									
Student financial assistance cluster									
College Work Study	84.033	P033A072052	123,573	-	123,573	-	123,573	123,573	-
Pell Grant	84.063	P063P021645	2,960,247	170,247	170,247	2,960,247	-	2,960,247	-
Pell Grant	84.063	P063P081645	3,668,613	-	3,645,177	-	3,668,613	3,668,613	23,436
Supplemental Education Opportunity Grant	84.007	P007A022052	93,434	3,434	3,434	93,434	-	93,434	-
Supplemental Education Opportunity Grant	84.007	P007A082052	91,315	-	91,315	-	91,315	91,315	-
Academic Competitiveness Grant	84.375	P375A071645	55,500	-	51,600	-	55,500	55,500	3,900
			6,992,682	173,681	4,085,346	3,053,681	3,939,001	6,992,682	27,336
Trio - Upward Bound	84.047A	P047A070135A	250,800	-	119,327	-	182,244	182,244	62,917
Total direct programs			7,243,482	173,681	4,204,673	3,053,681	4,121,245	7,174,926	90,253

The accompanying notes are an integral part of this schedule.

Muskegon Community College
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's I.D. number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
						Prior year	Current year	Total	
<i>U.S. Department of Education—Continued</i>									
Passed through the Michigan Department of Education: Carl D. Perkins Vocational Education Act	84.048A								
Local Administration		083250-802520	\$ 18,400	\$ -	\$ 17,000	\$ -	\$ 18,400	\$ 18,400	\$ 1,400
Professional Development		083290-802920	2,914	-	-	-	2,914	2,914	2,914
Regional Allocation		083510-802120	265,725	-	75,400	-	265,725	265,725	190,325
			287,039	-	92,400	-	287,039	287,039	194,639
TOTAL FEDERAL AWARDS			\$ 8,084,361	\$ 173,681	\$ 4,333,850	\$ 3,053,681	\$ 4,499,594	\$ 7,553,275	\$ 339,425

The accompanying notes are an integral part of this schedule.

Muskegon Community College
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. The value of Guaranteed Student Loans for the year ended June 30, 2008 was \$2,073,281.
4. The value of Federal PLUS Loans for the year ended June 30, 2008 was \$42,770.
5. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008
financial statements

Restricted Fund	\$ <u>4,499,594</u>
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Expenditures per single audit report

Schedule of Expenditures of Federal Awards	\$ <u>4,499,594</u>
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Muskegon Community College
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Muskegon Community College.
2. **One (1)** significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This significant deficiency is not reported as a material weakness.
3. There were **no** instances of noncompliance material to the financial statements of Muskegon Community College disclosed during the audit and as reported in Part B of this schedule.
4. There were **no** significant deficiencies disclosed during the audit of the major federal award programs reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 as reported in Parts B and C of this schedule.
5. The auditors' report on compliance for the major federal award programs for Muskegon Community College expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Student Financial Aid Cluster	84.007, 84.033, 84.063 and 84.375
Carl D. Perkins Vocational Act	84.048A

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Muskegon Community College was not determined to be a low-risk auditee.

Muskegon Community College
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Credit Card Transaction Procedures

Criteria: All credit card transactions should receive review and documented approval and should have adequate documentation as to the business purpose.

Condition: During our detailed testing, we noted that not all credit card transactions received review and documented approval and/or did not have adequate documentation as to the business purpose.

Cause: Certain credit card transactions did not receive review and documented approval and/or did not have adequate documentation as to the business purpose, as required by College policy.

Effect: Noncompliance with College policy on credit card transactions could have resulted in expenditures not consistent with College policies or the misappropriation of funds. However, none of such conditions was noted.

Recommendation: Controls surrounding credit card transactions should be improved

College Response: A policy has been put in place on the procedures and proper documentation required on credit card transactions.

Muskegon Community College
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

U.S. Department of Education

Fiscal 2008 Finding No. 2: Student Financial Aid Cluster

CFDA: 84.007, 84.033, 84.063 and 84.375

Award Numbers: P033A072052, P063P081645, P007A082052 and P375A071645

Award Year Ends: 2008-2009

Specific Requirement: Cash Management

Criteria: Under 34CFR sections 668.162, 163, 164 and 166, the College's request must not exceed the amount immediately needed to disburse funds to students. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either SFA funds or its own funds. Under the advance payment method the College must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned the U.S. Department of Education.

Condition: During our detailed testing, we noted that the Supplemental Education Opportunity Grant (SEOG) was over-requested during the year ended June 30, 2008, with the overage not being spent for 2 ½ months. By the end of the fiscal year, grant revenues equaled expenditures.

Cause: The College procedures do not require the review of SEOG grant requests for reimbursements before being submitted.

Questioned Costs: \$137

Context: One of four SEOG grant expenditure reimbursement requests tested were in excess of federal requirements.

Effect: Interest earnings were calculated on the amount over-requested using a holding period of 2 ½ months (the amount of time that passed before the overage was spent) and an interest rate equal to what was offered on the College's National City Bank accounts. The total interest computed of \$137 is provided as the questioned costs above.

Recommendation: All requests for federal grant reimbursements should be reviewed with documented approval by an appropriate individual prior to submission to ensure that federal funds are not over-requested.

College Response: All requests for any grant reimbursement have documentation substantiating the amount requested. The requests are then reviewed and approved prior to submission.

Muskegon Community College
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE—Continued

U.S. Department of Education

Fiscal 2008 Finding No. 3: Carl D. Perkins Vocational Education Act

CFDA: 84.048A

Award Numbers: 083250-802520, 083290-802920 and 083510-802120

Award Year Ends: September 30, 2008

Specific Requirement: Allowable Costs/Cost Principles

Criteria: The cost principle of OMB Circular A-87 requires, "...Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. ...Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation."

Condition: During our detailed testing, we noted one employee whose wages and benefits were charged partially to the grant that did not have proper time and effort documentation. Either time studies or semi-annual time certifications were not prepared for these employees to support their time charged to the grant, or their time studies were not adequate in relation to federal requirements.

Cause: The matter appears to be a systemic condition, since this is the fourth consecutive year which this finding has been noted and reported.

Questioned Costs: \$8,539, which represents the portion of salaries and benefits charged to the grant for all employees that did not have adequate documentation.

Context: One of three employees, for which Perkins time studies or semi-annual certifications, did not have adequate documentation.

Effect: The salaries and benefits charged to the Perkins grant for the one employee could be disallowed.

Recommendation: The College should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required documentation.

College Response: The College has been requiring specific employees who fall under the documenting time requirements to do just that. For the past two years, employees have been documenting time spent on the grant either on bi-weekly time sheets or via a blanket statement of grant activities covering a six-month time span.

The problem with this system has been in the time sheet employees not providing enough detail of their activities to satisfy OMB requirements. Over the last two years the College has enforced the practice of documenting time and has increased the amount of detail information required from the employees. We are hopeful that we have solved the issue for 2008 – 2009 by requiring closer scrutiny of individual time sheets by not only the immediate supervisor but also by the administrator charged with Perkins compliance.

SIGNIFICANT DEFICIENCIES

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 1, 2008

U.S. Department of Education
Washington, D.C.

Muskegon Community College respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated December 11, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: MATERIAL WEAKNESS—General Ledger Reconciliation Procedures

Condition: During the year ended June 30, 2007, material general ledger account balances were not regularly reconciled to supporting documentation.

Recommendation: General ledger account balances should be regularly analyzed for their accuracy in relation to supporting documentation.

Current Status: The recommendation was implemented during the year ended June 30, 2008. *No* similar finding was reported with the single audit for the year ended June 30, 2008.

Fiscal 2007 Finding No. 2: Procedures for Interim Financial Reporting to Governing Body

Condition: During the year ended June 30, 2007, the Board of Trustees and its Finance Committee did not receive adequate interim financial reporting and key operational information.

Recommendation: Key financial and operational information should be identified and regularly reported to the Board of Trustees and its Finance Committee.

Current Status: The recommendation was implemented during the year ended June 30, 2008. *No* similar finding was reported with the single audit for the year ended June 30, 2008.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

Fiscal 2007 Finding No. 3: Documentation of Employee Time and Effort

Carl D. Perkins Vocational Education Act

CFDA: 84.048

Award Numbers: 073250-702520, 073290-702920, 073510-702120,
063490-7029CT20

Award Year End: September 30, 2007

Specific Requirement: Allowable Costs/Cost Principles

Condition: We noted one employee whose wages and benefits were charged partially to the grant and whose time studies were not adequate in relation to federal requirements.

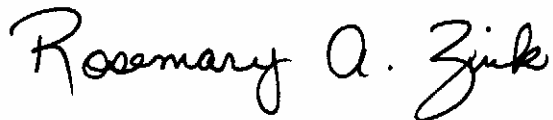
Recommendation: The College should require all employees who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs to prepare the required documentation.

Current Status: See Fiscal 2008 Finding No. 3 for a similar finding noted during the single audit for the year ended June 30, 2008.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

Sincerely,



Rosemary A. Zink
Associate Vice President of Administration

CORRECTIVE ACTION PLAN

December 1, 2008

U.S. Department of Education
Washington, D.C.

Muskegon Community College respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Card Transaction Procedures

Recommendation: Controls surrounding credit card transactions should be improved.

Action Taken: A policy has been put in place on the procedures and proper documentation required on credit card transactions.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS

COMPLIANCE

U.S. Department of Education

Fiscal 2008 Finding No. 2: Student Financial Aid Cluster

Recommendation: All requests for federal grant reimbursements should be reviewed with documented approval by an appropriate individual prior to submission to ensure that federal funds are not over-requested.

Action Taken: All requests for any grant reimbursement have documentation substantiating the amount requested. The requests are then reviewed and approved prior to submission.

U.S. Department of Education

Fiscal 2008 Finding No. 3: Carl D. Perkins Vocational Education Act

Recommendation: The College should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required documentation.


Action Taken: The College will require closer scrutiny of individual time sheets by not only the immediate supervisor but also by the administrator charged with Perkins compliance.

SIGNIFICANT DEFICIENCIES

There were **no** significant deficiencies reported in relation to the audit of major federal award programs during the single audit for the year ended June 30, 2008.

If the U.S. Department of Education has questions regarding this plan, please call Rosemary A. Zink at (231) 777-0314.

Sincerely,



Rosemary A. Zink
Associate Vice President of Administration

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

December 1, 2008

Board of Trustees
Muskegon Community College
Muskegon, Michigan

In planning and performing our audit of the financial statements of Muskegon Community College as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Muskegon Community College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muskegon Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskegon Community College's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified and we have attached deficiencies in internal control that we consider to be significant deficiencies.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of management, the Board of Trustees, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCY

Recommendation 1: Controls surrounding credit card transactions should be improved.

During our testing, we noted that there is not an independent review and documented approval of all credit card transactions. In addition, many transactions, while supported by a receipt, did not have adequate documentation as to the business purpose.

Having an independent review and documented approval of all credit card transactions and adequately documenting the business purpose of all charges would help to ensure that all transactions are for the College's benefit and would reduce the opportunity for errors or misappropriations of funds to go undetected.